



October 24, 2014

Louisiana Public Service Commission
Office of the General Counsel
602 North Fifth Street
Baton Rouge, Louisiana 70802

Attention: Kathleen Richardson

RE: RFP 14-16

ReSolved Energy Consulting, LLC ("REC") is pleased to submit this Proposal for Services to the Louisiana Public Service Commission ("LPSC" or "Commission") for consulting services in the review of the *Request for Proposals for outside consultant to assist Staff with the Fuel Adjustment Clause Audit for Cleco Power, LLC. (2009-2013)*. This proposal describes the consulting services REC will provide including:

- A. Statement of the Project
- B. Firm Profile
- C. Work Plan
- D. Prior Experience
- E. References
- F. Personnel
- G. Statement of Potential Conflicts of Interests
- H. Budget Estimates
- I. Authorized Signature
- J. Resumes

REC believes this proposal is responsive to the LPSC's needs and that the results of REC's consulting efforts will ensure that the LPSC is prepared to address any issues brought forth as a result of this review and analysis. We are confident that we can serve the Commission's needs and look forward to working with the Commission staff.

Thank you for the opportunity to prepare this proposal for services. If you have any questions regarding this proposal, please feel free to call me at (512) 331 – 4949, extension 105.

Very truly yours,

Karl J. Nalepa
President



Proposal for Services

Louisiana Public Service Commission Request for Proposals No. 14-16

Outside Consultant to Assist Staff with the Fuel Adjustment Clause Audit of Cleco Power, LLC. (2009-2013)

October 24, 2014

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***Proposal for
Louisiana Public Service Commission
RFP 14-16
Outside Consultant to Assist Staff with the Fuel Adjustment Clause
Audit of Cleco Power, LLC. (2009 – 2013)***

A. STATEMENT OF THE PROJECT

Fuel costs make up a significant portion of a utility's cost of service and can fluctuate widely over relatively short periods of time. A Fuel Adjustment Clause ("FAC") clause permits utilities to recoup fuel costs on an ongoing basis without a comprehensive review of the utility's total cost of service. A FAC clause is not designed to allow the utility to earn a profit; rather, it is a recoupment device designed to permit a dollar-for-dollar recovery of fluctuations in the cost of fuel to the utility. FAC clauses may appear on the surface to be clear-cut based upon a prescribed formula. However, the implementation of the formula can prove to be controversial and complex. For this reason, regulators retain jurisdiction to review and determine, in a retrospective analysis, whether the costs passed through to consumers via the FAC were prudently incurred, produce just and reasonable rates, and were properly included in the FAC.

The Louisiana Public Service Commission ("LPSC" or "Commission") has initiated an audit of Cleco Power, LLC. ("Cleco" or "Company") for the calendar years 2009 - 2013. The Commission further directed the LPSC Staff ("Staff") to select independent technical consultants to assist Staff in reviewing the technical and jurisdictional issues related to the Commission's audit.

Under the Staff's direction, ReSolved Energy Consulting, LLC ("REC") task is to assist the Commission's Legal, Audit and Economic Divisions in analyzing fuel purchases and usage by Cleco during the audit period to determine the accuracy and reasonableness of those costs recovered by the Company through its FAC. In determining the reasonableness of these costs REC will review the operations, books, records and FAC filings of Cleco, conduct discovery, prepare and defend direct and rebuttal testimony, participate in public hearings, assist Staff in preparation of any post-hearing briefs or filings, assist in any settlement discussions and/or stipulation hearings, and, if required, attend and testify at the Commission's Business and Executive Session(s).

The basis for direct testimony will be an Audit Report containing the results of the investigation. That report will contain specific findings and recommendations concerning whether the costs passed through the FAC clause were or were not reasonable and prudent, and whether the costs were appropriate for recovery in the FAC clause mechanism consistent with the Commissions November 6, 1997 General Order.

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B. FIRM PROFILE

ReSolved Energy Consulting, LLC is a consulting firm specializing in the electric and natural gas utility industry since 1998. REC services includes regulatory assistance, resource planning, power supply analysis and procurement, economic and financial analysis, cost of service analysis and rate design, competitive assessment, litigation support, and load aggregation services.

REC personnel regularly participate in utility regulatory proceedings. These activities often include representing the interests of municipalities and their ratepayers in utility base rate or fuel cost proceedings, fuel reconciliation and refund filings, annual rate adjustments such as transmission, distribution, and purchased power cost recovery factors, and other such filings by investor owned utilities. REC has also represented public power entities in base rate and wholesale transmission rate increase requests. A majority of our assignments have been before Texas regulatory bodies, but REC consultants have provided services throughout the country.

In addition to regulatory proceeding engagements, REC is also experienced in the procurement of energy supplies at both a wholesale and retail level, and has also assisted clients in asset divestiture and procurement. Following are some representative projects in which REC has assisted clients in these matters.

Since 2001 REC has served as technical consultant to a large power aggregation group that since 2011 is called Texas Cities for Affordable Power (“TCAP”). This group is comprised of over 160 Texas cities and political subdivisions. REC’s duties include supply procurement, including issuance of RFPs for power supplies and the negotiation of power supply agreements, provide technical assistance on electric issues, assist individual members with electric problems, and provide new and innovative approaches for saving members money via innovative procurement and contracting. REC developed and implemented one of the first arrangements in the Texas deregulated market where customers separately procure power and REP services from alternative providers.

As consultant to a large Texas municipal utility, REC performed financial analysis and negotiated provisions of the sale of generation assets by the utility to a third party, as well as negotiating a related multi-year transitional power agreement for the municipal utility. In addition, working as consultant to a Texas municipal utility, REC solicited and negotiated a multi-year power purchase agreement totaling \$200 million for full-requirements wholesale electric supply and QSE and energy balancing services in ERCOT. Furthermore, REC consultants have served as project advisor for numerous other power purchase contracts, interconnection agreements, and a construction contract for a 700 MW combined cycle generation project in Texas.

For additional information please visit our web site at www.ReSolvedEnergy.com.

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C. WORK PLAN

The Commission's General Order dated November 6, 1997 ("FAC Order") requires that the costs passed through a utility's fuel adjustment mechanism were prudently incurred, produced just and reasonable rates, were necessary to the provision of electric service, and were eligible for recovery through the fuel clause. This fuel adjustment clause audit of Cleco for the period 2009 – 2013 is intended to comply with the FAC Order.

REC will work closely with the LPSC Staff in reviewing the operations, books and records of Cleco. REC's consultants will thoroughly analyze the Companies books and records to delineate includable and excludable fuel and purchased power costs. REC's consultants, working in concert with Staff, will develop and assist in the development of data requests and will review and analyze the utility's responses to those data requests as well as responses to data requests submitted by other parties, if any.

REC's review procedures will include an analysis of Cleco's monthly comprehensive fuel adjustment reporting requirements filed with the LPSC. REC will review and analyze Cleco's monthly comprehensive fuel adjustment filings to assure compliance with all pertinent state and federal regulations. If needed, REC will develop new, or suggest improvements to Staffs current internal procedures to effectively monitor and evaluate Cleco's performance in areas impacting the fuel and purchased power costs.

Issues that REC will address include, but are not necessarily limited to:

- 1) A determination if fuel and associated costs are properly identified and recorded in the appropriate uniform system of accounts.
 - a) Only those direct costs of fuel included in FERC Accounts 151, 501 and 555 are recoverable as fuel and purchased power under the Louisiana FAC guidelines and rules. A detailed review of the Company's books and records will be undertaken to ensure that administration, labor, byproduct disposal, and other excludable costs are not included in the FAC.
 - b) An analysis of any special circumstances requests for recovery of otherwise excludable costs in the FAC.
- 2) A determination if purchased energy and associated costs are properly identified.
 - a) A detailed review of the Company's books and records will be undertaken to ensure that purchased power demand, capacity, or facilities charges, whether explicitly identified or subsumed within the energy charge, are not included in the FAC.
 - b) A review of the books and records to ensure that off-system sales and revenues are appropriately accounted for.
- 3) An assessment of the Company's practices for economical purchase and use of fuel and electric energy.

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- a) Did the Company purchase natural gas at reasonable prices as compared to published market indices?
- b) During the audit period, were storage facilities utilized to provide increased supply reliability and swing flexibility, and if so, were the facilities effectively utilized. Did alternatives exist, such as long term gas supply and transportation agreements, which could provide the same reliability and flexibility at a lower cost?
- c) Were coal and coal transportation costs reasonable, and were fuel inventories appropriate to maintain reliable generation?
- d) Were plant heat rates and availability factors reasonable?
- e) Were purchased power energy costs reasonable as compared to published market indices?
- f) Did the Company take advantage of opportunities in the fuel and purchased power market to reduce costs to consumers?
- g) Were affiliate transactions reasonable and consistent with Commission rules?
- 4) An assessment of the relevant contract terms and conditions and any variations from contract terms.
 - a) Were fuel and purchased power contracts in existence during the reconciliation period properly administered?
 - b) Were fuel or purchased power contracts entered into during the review period reasonable and necessary?
 - c) Were opportunities to renegotiate fuel and purchased power contracts to secure more favorable terms pursued when possible?

Using information obtained through discovery and developed by means of our own analyses, REC will assist Staff in preparing an Audit Report which will identify any irregularities found in the monthly fuel adjustment calculations that were incorrectly assessed and applied to Louisiana customer billing statements or which allowed for the recovery of these unauthorized expenses by Cleco. The Report will include an Executive Summary which will identify any cost included in the audit found to be in violation of the FAC Order and a recommendation as to the appropriate methodology to be utilized by the Commission to provide for recovery of these costs

If necessary, REC's Consultants will also prepare testimony which, after review and vetting by Staff, will be filed on behalf of Staff. REC's consultants will support and defend its filed testimony in any appearances as expert witnesses and will respond in a timely manner to any data requests filed by the utility or by other parties. Further, REC's consultants will assist Staff in developing cross-examination materials for the utility's witnesses and for the witnesses of intervening parties as necessary. REC's consultants will also assist Staff in preparing briefs, reply briefs, and proposed orders as required. REC's consultants are prepared to assist Staff in

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any settlement discussions and/or stipulation hearing and, if necessary, testify at the Commission's Business and Executive Session(s).

Estimated Timeline

REC submits the following estimated timeline to complete the work plan as described above:

Activity	Description	Date
1	Review FAC filings and supporting materials	December 2014
2	Draft data requests and review responses	December 2014 - January 2015
3	Review relevant books and records and historical data involving prior audits	February 2015
4	Participate in status conferences with Company and/or Staff	January - March 2015
5	Conduct analysis and develop recommendations	March - April 2015
6	Prepare and submit Audit Report	May 2015
If Necessary:		
7	Prepare and submit prefiled testimony, respond to data requests, and appear at hearing	July - September 2015
8	Assist Staff to develop cross-examination materials, prepare briefs, reply briefs and proposed Orders. Participate in any settlement discussions and/or stipulated hearing	August - October 2015
9	Appear at B&E Session and testify if necessary	December 2015

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D. PRIOR EXPERIENCE

REC has previously assisted the Louisiana Public Service Commission Staff in Docket No. U-31971 *Joint Application of Entergy Louisiana, LLC for Approval to Construct Unit 6 at Ninemile Point Station and of Entergy Gulf States Louisiana, L.L.C. for Approval to Participate in a Related Contract for the Purchase of Capacity and Electric Energy, for Cost Recovery and Request for Timely Relief.*

REC is also assisting the Staff in the subsequent Docket No. U-33033 *Joint Application of Entergy Louisiana, LLC and Entergy Gulf States Louisiana, LLC for Certification of First Year Revenue Requirement Associated with Construction of Ninemile 6 and Related Purchase Power Agreement and Request for Timely Relief.* Furthermore, REC has assisted Staff in the review of *Entergy Service's Inc.'s Request for Proposals for Limited Term Capacity-Only Products.*

REC's project manager, Mr. Karl Nalepa, has broad experience in the regulation of electric and gas utilities, including service as a Fuels Analyst with the Public Utility Commission of Texas. He has testified in numerous fuel, purchased power and purchased gas reviews in Texas including:

Before the Public Utility Commission of Texas

Docket No. 41791	<i>Application of Entergy Texas, Inc. for Authority to Change Rates and Reconcile Fuel Costs</i>
Docket No. 40443	<i>Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs</i>
Docket No. 39896	<i>Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and Obtain Deferred Accounting Treatment</i>
Docket No. 37744	<i>Application of Entergy Texas, Inc. for Authority to Change Rates and Reconcile Fuel Costs</i>
Docket No. 37580	<i>Application of Entergy Texas, Inc. to Implement an Interim Fuel Refund</i>
Docket No. 34800	<i>Application of Entergy Gulf States, Inc. for Authority to Change Rates and Reconcile Fuel Costs</i>
Docket No. 16705	<i>Application of Entergy Gulf States, Inc. for Approval of its Transition to Competition Plan and the Tariffs Implementing the Plan, and for the Authority to Reconcile Fuel Costs, to Set Revised Fuel Factors, and to Recover a Surcharge for Underrecovered Fuel Costs</i>

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Docket No. 10092 *Application of Houston Lighting & Power Co. for Reconciliation of Fuel Costs*

Docket No. 10035 *Application of West Texas Utilities Co. to Reconcile Fuel Costs and for Authority to Increase Fixed Fuel Factors*

Docket No. 8900 *Petition of General Counsel for a Fuel Reconciliation for Southwestern Electric Power Company*

Docket No. 8588 *Application of El Paso Electric Co. for Reconciliation of Fuel Costs*

Before the Railroad Commission of Texas

Docket No. 9732 *Atmos Energy Corporation, Mid-Tex Division Gas Cost Review*

Docket No. 9530 *Atmos Energy Corporation Transmission Gas Cost Review*

REC consultants also have a broad base of requisite experience working for electric utilities (including IOUs and public power), independent power generators and other market participants with a particular interest in the Texas and Louisiana markets. Our staff has direct experience in Louisiana markets from both an employee and consultant perspective and understands the many challenges and unique features of the Louisiana market.

In evaluating the qualifications of firms offering to provide assistance to Staff in a retrospective analysis of whether CLECO's costs passed through to consumers via the FAC were prudently incurred, produce just and reasonable rates, and were properly included in the FAC, you will find that REC has a unique combination of talent and experience that sets us apart from other consulting firms. REC consultants have both utility operating and regulatory commission backgrounds. REC's professionals have performed numerous fuel costs reviews, resource planning and power supply procurement studies, revenue requirement analyses and rate design engagements involving critical analysis of the issues and preparation of testimony to support positions to address our client's needs and concerns. REC consultants are knowledgeable of accounting standards and electric utility practices including affiliate transactions; generation fuel supply requirements; purchased power requirements; fuel markets and contracting; and the development of base rates, fuel adjustment clauses and other such pricing mechanisms.

E. REFERENCES

Stone Pigman Walther Wittmann L.L.C.
Mr. Paul L. Zimmering, Esq.
546 Carondelet Street
New Orleans, Louisiana 70130
(504) 581-3200

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Lloyd Gosselink Rochelle & Townsend, P.C.
Mr. Geoffrey M. Gay
816 Congress Avenue, Suite 1900
Austin, TX 78701
(512) 322-5875

The Lawton Law Firm
Mr. Dan Lawton
12600 Hill Country Blvd.
Suite R-275
Austin, TX 78738
(512) 322-0019

Herrera & Boyle, PLLC
Mr. Alfred Herrera
816 Congress Ave., Suite 1120
Austin, TX 78701
(512) 474-1492

F. PERSONNEL

REC's project team is proposed to consist of three highly experienced consultants. Although we do not anticipate using other REC consultants during this engagement, additional REC personnel are available to provide additional assistance to this project, if necessary. Brief descriptions of each consultant who will participate in this project are provided below along with that consultant's role in this project. Resumes of each of these individuals are provided in the attachments to this proposal.

REC's project manager will be Karl Nalepa, an economist with more than 30 years of experience in the energy sector. In addition to his consulting experience, he has previously held positions with both the Public Utility Commission of Texas and the Railroad Commission of Texas. He has extensive experience analyzing utility rate filings and has prepared and defended expert testimony in both administrative and civil proceedings. As a Railroad Commission Assistant Director, he managed staff participation in all aspects of contested proceedings. Mr. Nalepa has experience in utility cost-of-service and resource planning for electric and natural gas distribution utilities as well as experience in the analysis of accounting and economic data for determination of revenue requirements. Mr. Nalepa regularly provides consulting assistance in utility matters relating to pricing and regulatory issues. He has provided expert testimony before various regulatory agencies. Mr. Nalepa has been project manager for REC for numerous engagements relating to pricing, cost-of-service, revenue requirements, regulatory issues and other matters. Mr. Nalepa's responsibilities in this engagement include coordination and control of REC's consulting efforts, evaluation of regulatory compliance, and support of other REC

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consulting personnel in all aspects of REC's work efforts. He will serve as principal contact at REC and will direct the activities of other REC consultants in this engagement.

Bill Starnes is a senior management consultant with REC, with over 20 years of broad based experience. His experience includes managerial work in strategic and operational planning, supply management, development and implementation of regulatory changes in restructured markets, regulatory compliance, contract negotiation, valuation of utility assets, gas transportation management and scheduling, administration, and rates. Mr. Starnes has extensive experience in the development of the policies and procedures to implement the Texas restructured electric market, development and maintenance of retail customer electric aggregation groups in the Texas electric markets, financial analysis and valuation of both physical and contractual assets in both the electric and gas markets, procurement of both electric and gas supplies for utilities end users, developing contract buy-down or buyout costs for contract negotiations and fuel price forecasting. Mr. Starnes has also managed or performed numerous valuations and due diligence reviews of both physical and contractual assets. In addition, Mr. Starnes has developed and implemented special marketing programs to sell underutilized contractual assets for both gas supplies and gas transportation.

Robert Stemper's primary emphasis is in microcomputer software development and execution of cost-of-service, rate design, and other support programs. On numerous occasions, Mr. Stemper has been responsible for the gathering and processing of engineering and accounting data, including the system and customer load characteristics, required to complete these analyses. Mr. Stemper's nearly 40 year career began as a rate analyst with the Public Utility Commission of Wisconsin. He has experience in load research, rate design, accounting and marginal cost-of-service studies for electric, gas and water utilities. He has conducted numerous assignments for investor-owned, publicly-owned, and member-owned utilities. He has developed microcomputer-based models for utility applications and provided documentation and training sessions for client's personnel.

G. STATEMENT OF POTENTIAL CONFLICTS OF INTEREST

The Consultants, ReSolved Energy Consulting and its team members, have no relationships between themselves and the companies under the jurisdiction of the Louisiana Public Service Commission, or with any subsidiaries or affiliates of such companies. To the best of our knowledge and belief, there are no real or potential conflicts of interest that exist between the Consultant and any utilities in Louisiana.

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H. BUDGET ESTIMATES

<u>Hourly Rates:</u>		<u>Total Budget Estimate:</u>	
Mr. Karl Nalepa	\$250/hr	Professional Fees:	\$48,300
Mr. Bill Starnes	\$250/hr	<u>Total Other Costs:*</u>	<u>\$ 1,500</u>
Mr. Robert Stemper	\$225/hr	Total Fees and Costs:	\$49,800

* Travel, copies, postage

The above budget represents work through completion of the Cleco Power Audit Report. In the event that a hearing is required and testimony must be developed and presented, REC will work with the Staff to determine if a budget adjustment for the additional work is needed. In any case, REC will only bill for actual hours of work performed and costs incurred. The proposed budget is based on REC's best estimate of the scope of the project as outlined in the RFP and REC will obtain approval of the Commission prior to any change in the budget. If the scope of the project changes as a result of actions outside the control of REC which result in an increase to the budget, the Commission must approve the change in budget prior to REC commencing work under the revised scope.

Note that the proposed budget does not include time for support activities which might continue after an Order is signed in these proceedings, such as rehearing on some or all issues, or appeals by any party to the proceedings. A budget for these activities will be developed in consultation with Commission Staff at that time.

I. AUTHORIZED SIGNATURE

RESOLVED ENERGY CONSULTING, LLC.
11044 RESEARCH BLVD., SUITE D-230
AUSTIN, TEXAS 78759
PHONE: (512) 331-4949, EXT. 105

KARL J. NALEPA
PRESIDENT

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J. APPENDIX - RESUMES

KARL J. NALEPA

Mr. Nalepa is an energy economist with more than 30 years of private and public sector experience in the electric and natural gas industries. He has extensive experience analyzing utility rate filings and resource plans with particular focus on fuel and power supply requirements, quality of fuel supply management, and reasonableness of energy costs. Mr. Nalepa developed peak demand and energy forecasts for municipal and electric cooperative utilities and has forecast the price of natural gas in ratemaking and resource plan evaluations. He led a management and performance review of the Texas Public Utility Commission, and has conducted performance reviews and valuation studies of a number of municipal utility systems. Mr. Nalepa previously directed the Railroad Commission of Texas' Regulatory Analysis & Policy Section, with responsibility for preparing timely natural gas industry analysis, managing ratemaking proceedings, mediating informal complaints, and overseeing consumer complaint resolution. He has prepared and defended expert testimony in both administrative and civil proceedings, and has served as a technical examiner in natural gas rate proceedings.

EDUCATION

- | | |
|------|---|
| 1998 | Certificate of Mediation
Dispute Resolution Center, Austin |
| 1989 | NARUC Regulatory Studies Program
Michigan State University |
| 1988 | M.S. - Petroleum Engineering
University of Houston |
| 1980 | B.S. - Mineral Economics
Pennsylvania State University |

PROFESSIONAL HISTORY

- | | |
|-------------|--|
| 2003 - | ReSolved Energy Consulting
President and Managing Director |
| 1997 – 2003 | Railroad Commission of Texas
Asst. Director, Regulatory Analysis & Policy |
| 1995 – 1997 | Karl J. Nalepa Consulting
Principal |
| 1992 – 1995 | Resource Management International, Inc.
Supervising Consultant |
| 1988 – 1992 | Public Utility Commission of Texas
Fuels Analyst |
| 1980 – 1988 | Transco Exploration Company
Reservoir and Evaluation Engineer |

AREAS OF EXPERTISE

Regulatory Analysis

Electric Power: Analyzed electric utility rate, certification, and resource forecast filings. Assessed the quality of fuel supply management, and reasonableness of costs recovered from ratepayers. Projected the cost of fuel and purchased power. Estimated the impact of environmental costs on utility resource selection. Participated in regulatory rulemaking activities. Provided expert staff testimony in a number of proceedings before the Texas Public Utility Commission.

As consultant, represent interests of municipal clients intervening in large utility rate proceedings through analysis of filings and presentation of testimony before the Public Utility Commission. Also assist municipal utilities in preparing and defending requests to change rates and other regulatory matters before the Public Utility Commission.

Natural Gas: Directed the economic regulation of gas utilities in Texas for the Railroad Commission of Texas. Responsible for monitoring, analyzing and reporting on conditions and events in the natural gas industry. Managed Commission staff representing the public interest in contested rate proceedings before the Railroad Commission, and acted as technical examiner on behalf of the Commission. Mediated informal disputes between industry participants and directed handling of customer billing and service complaints. Oversaw utility compliance filings and staff rulemaking initiatives. Served as a policy advisor to the Commissioners.

As consultant, represent interests of municipal clients intervening in large utility rate proceedings through analysis of filings and presentation of testimony before the cities and Railroad Commission. Also assist small utilities in preparing and defending requests to change rates and other regulatory matters before the Railroad Commission.

Litigation Support

Retained to support litigation in natural gas contract disputes. Analyzed the results of contract negotiations and competitiveness of gas supply proposals considering gas market conditions contemporaneous with the period reviewed. Supported litigation related to alleged price discrimination related to natural gas sales for regulated customers. Provided analysis of regulatory and accounting issues related to ownership of certain natural gas distribution assets in support of litigation against a natural gas utility. Supported independent power supplier in binding arbitration regarding proper interpretation of a natural gas transportation contract. Provided expert witness testimony in administrative and civil court proceedings.

Utility System Assessment

Led a management and performance review of the Public Utility Commission. Conducted performance reviews and valuation studies of municipal utility systems. Assessed ability to compete in the marketplace, and recommended specific actions to improve the competitive position of the utilities. Provided comprehensive support in the potential sale of a municipal gas system, including preparation of a valuation study and all activities leading to negotiation of contract for sale and franchise agreements.

Energy Supply Analysis

Reviewed system requirements and prepared requests for proposals (RFPs) to obtain natural gas and power supplies for both utility and non-utility clients. Evaluated submittals under alternative demand and market conditions, and recommended cost-effective supply proposals. Assessed supply strategies to determine optimum mix of available resources.

Econometric Forecasting

Prepared econometric forecasts of peak demand and energy for municipal and electric cooperative utilities in support of system planning activities. Developed forecasts at the rate class and substation levels. Projected price of natural gas by individual supplier for Texas electric and natural gas utilities to support review of utility resource plans.

Reservoir Engineering

Managed certain reserves for a petroleum exploration and production company in Texas. Responsible for field surveillance of producing oil and natural gas properties, including reserve estimation, production forecasting, regulatory reporting, and performance optimization. Performed evaluations of oil and natural gas exploration prospects in Texas and Louisiana.

PROFESSIONAL MEMBERSHIPS

Society of Petroleum Engineers
International Association for Energy Economics

SELECT PUBLICATIONS, PRESENTATIONS, AND TESTIMONY

“Public Utility Ratemaking,” EBF 401: Strategic Corporate Finance, The Pennsylvania State University, September 2013

“What You Should Know About Public Utilities,” EBF 401: Strategic Corporate Finance, The Pennsylvania State University, October 2011

“Natural Gas Markets and the Impact on Electricity Prices in ERCOT,” Texas Coalition of Cities for Fair Utility Issues, Dallas, October 2008

“Natural Gas Regulatory Policy in Texas,” Hungarian Oil and Gas Policy Business Colloquium, U.S. Trade and Development Agency, Houston, May 2003

“Railroad Commission Update,” Texas Society of Certified Public Accountants, Austin, April 2003

“Gas Utility Update,” Railroad Commission Regulatory Expo and Open House, October 2002

“Deregulation: A Work in Progress,” Interview by Karen Stidger, *Gas Utility Manager*, October 2002

“Regulatory Overview: An Industry Perspective,” Southern Gas Association’s Ratemaking Process Seminar, Houston, February 2001

“Natural Gas Prices Could Get Squeezed,” with Commissioner Charles R. Matthews, *Natural Gas*, December 2000

“Railroad Commission Update,” Texas Society of Certified Public Accountants, Austin, April 2000

“A New Approach to Electronic Tariff Access,” Association of Texas Intrastate Natural Gas Pipeline Annual Meeting, Houston, January 1999

“A Texas Natural Gas Model,” United States Association for Energy Economics North American Conference, Albuquerque, 1998

“Texas Railroad Commission Aiding Gas Industry by Updated Systems, Regulations,” *Natural Gas*, July 1998

“Current Trends in Texas Natural Gas Regulation,” Natural Gas Producers Association, Midland, 1998

“An Overview of the American Petroleum Industry,” Institute of International Education Training Program, Austin, 1993

Direct testimony in PUC Docket No. 10400 summarized in *Environmental Externality*, Energy Research Group for the Edison Electric Institute, 1992

“God’s Fuel - Natural Gas Exploration, Production, Transportation and Regulation,” with Danny Bivens, Public Utility Commission of Texas Staff Seminar, 1992

“A Summary of Utilities’ Positions Regarding the Clean Air Act Amendments of 1990,” Industrial Energy Technology Conference, Houston, 1992

“The Clean Air Act Amendments of 1990,” Public Utility Commission of Texas Staff Seminar, 1992

**KARL J. NALEPA
TESTIMONY FILED**

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
<u>Before the Public Utility Commission of Texas</u>					
42770	Aug 14	Denton Municipal Electric	Denton Municipal Electric	Interim TCOS	Wholesale Transmission Rate
42485	Jul 14	Cities	Entergy Texas, Inc.	EECRF	EECRF Methodology
42449	Jul 14	City of El Paso	El Paso Electric	EECRF	EECRF Methodology
42448	Jul 14	Cities	SWEPCO	TCRF	Transmission Cost Recovery Factor
41791	Jan 14	Cities	Entergy Texas, Inc.	Cost of Service	Cost of Service/Fuel
41539	Jul 13	Cities	AEP Texas North	EECRF	EECRF Methodology
41538	Jul 13	Cities	AEP Texas Central	EECRF	EECRF Methodology
41444	Jul 13	Cities	Entergy Texas, Inc.	EECRF	EECRF Methodology
41223	Apr 13	Cities	Entergy Texas, Inc.	ITC Transfer	Public Interest Review
40627	Nov 12	Austin Energy	Austin Energy	Cost of Service	General Fund Transfers
40443	Dec 12	Office of Public Counsel	SWEPCO	Cost of Service	Cost of Service/Fuel
40346	Jul 12	Cities	Entergy Texas, Inc.	Join MISO	Public Interest Review
39896	Mar 12	Cities	Entergy Texas, Inc.	Cost of Service/ Fuel Reconciliation	Cost of Service/ Nat Gas/ Purch Power
39366	Jul 11	Cities	Entergy Texas, Inc.	EECRF	EECRF Methodology
38951	Feb 12	Cities	Entergy Texas, Inc.	CGS Tariff	CGS Costs
38815	Sep 10	Denton Municipal Electric	Denton Municipal Electric	Interim TCOS	Wholesale Transmission Rate

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
38480	Nov 10	Cities	Texas-New Mexico Power	Cost of Service	Cost of Service/Rate Design
37744	Jun 10	Cities	Entergy Texas, Inc.	Cost of Service/ Fuel Reconciliation	Cost of Service/ Nat Gas/ Purch Power/ Gen
37580	Dec 09	Cities	Entergy Texas, Inc.	Fuel Refund	Fuel Refund Methodology
36956	Jul 09	Cities	Entergy Texas, Inc.	EECRF	EECRF Methodology
36392	Nov 08	Texas Municipal Power Agency	Texas Municipal Power Agency	Interim TCOS	Wholesale Transmission Rate
35717	Nov 08	Cities Steering Committee	Oncor	Cost of Service	Cost of Service/Rate Design
34800	Apr 08	Cities	Entergy Gulf States	Fuel Reconciliation	Natural Gas/Coal/Nuclear
16705	May 97	North Star Steel	Entergy Texas	Fuel Reconciliation	Natural Gas/Fuel Oil
10694	Jan 92	PUC Staff	Midwest Electric Coop	Revenue Requirements	Depreciation/ Quality of Service
10473	Sep 91	PUC Staff	HL&P	Notice of Intent	Environmental Costs
10400	Aug 91	PUC Staff	TU Electric	Notice of Intent	Environmental Costs
10092	Mar 91	PUC Staff	HL&P	Fuel Reconciliation	Natural Gas/Fuel Oil
10035	Jun 91	PUC Staff	West Texas Utilities	Fuel Reconciliation Fuel Factor	Natural Gas Natural Gas/Fuel Oil/Coal
9850	Feb 91	PUC Staff	HL&P	Revenue Req. Fuel Factor	Natural Gas/Fuel Oil/ETSI Natural Gas/Coal/Lignite
9561	Aug 90	PUC Staff	Central Power & Light	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas Natural Gas/Fuel Oil Natural Gas

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
9427	Jul 90	PUC Staff	LCRA	Fuel Factor	Natural Gas
9165	Feb 90	PUC Staff	El Paso Electric	Revenue Requirements Fuel Factor	Natural Gas/Fuel Oil Natural Gas
8900	Jan 90	PUC Staff	SWEPCO	Fuel Reconciliation Fuel Factor	Natural Gas Natural Gas
8702	Sep 89 Jul 89	PUC Staff	Gulf States Utilities	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas/Fuel Oil Natural Gas/Fuel Oil Natural Gas/Fuel Oil
8646	May 89 Jun 89	PUC Staff	Central Power & Light	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas Natural Gas/Fuel Oil Natural Gas
8588	Aug 89	PUC Staff	El Paso Electric	Fuel Reconciliation	Natural Gas

Before the Railroad Commission of Texas

10295	Oct 13	Cities Steering Committee	Atmos Pipeline Texas	Revenue Rider	Rider Renewal
10242	Jan 13	Onalaska Water & Gas	Onalaska Water & Gas	Cost of Service	Cost of Service/Rate Design
10196	Jul 12	Bluebonnet Natural Gas	Bluebonnet Natural Gas	Cost of Service	Cost of Service/Rate Design
10190	Jan 13	City of Magnolia, Texas	Hughes Natural Gas	Cost of Service	Cost of Service/Rate Design
10174	Aug 12	Steering Committee of Cities	Atmos Energy West Texas	Cost of Service	Cost of Service/Rate Design
10170	Aug 12	Cities Steering Committee	Atmos Energy Mid Tex	Cost of Service	Cost of Service/Rate Design
10106	Oct 11	Gulf Coast Coalition	CenterPoint Energy Entex	Cost of Service	Cost of Service/Rate Design
10083	Aug 11	City of Magnolia, Texas	Hughes Natural Gas	Cost of Service	Cost of Service/Rate Design
10038	Feb 11	Gulf Coast Coalition	CenterPoint Energy Entex	Cost of Service	Cost of Service/Rate Design

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
10021	Oct 10	AgriTex Gas, Inc.	AgriTex Gas, Inc.	Cost of Service	Cost of Service/Rate Design
10000	Dec 10	Cities Steering Committee	Atmos Pipeline Texas	Cost of Service	Cost of Service/Rate Design
9902	Oct 09	Gulf Coast Coalition	CenterPoint Energy Entex	Cost of Service	Cost of Service/Rate Design
9810	Jul 08	Bluebonnet Natural Gas	Bluebonnet Natural Gas	Cost of Service	Cost of Service/Rate Design
9797	Apr 08	Universal Natural Gas	Universal Natural Gas	Cost of Service	Cost of Service/Rate Design
9732	Jul 08	Cities Steering Committee	Atmos Energy Corp.	Gas Cost Review	Natural Gas Costs
9670	Oct 06	Cities Steering Committee	Atmos Energy Corp.	Cost of Service	Affiliate Transactions/ O&M Expenses/GRIP
9667	Nov 06	Oneok Westex Transmission	Oneok Westex Transmission	Abandonment	Abandonment
9598	Sep 05	Cities Steering Committee	Atmos Energy Corp.	GRIP Appeal	GRIP Calculation
9530	Apr 05	Cities Steering Committee	Atmos Energy Corp.	Gas Cost Review	Natural Gas Costs
9400	Dec 03	Cities Steering Committee	TXU Gas Company	Cost of Service	Affiliate Transactions/ O&M Expenses/Capital Costs

Before the Louisiana Public Service Commission

U-31971	Nov 11	PSC Staff	Entergy Louisiana, LLC/ Entergy Gulf States Louisiana	Resource Certification	Prudence / Cost Recovery
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Before the Arkansas Public Service Commission

07-105-U	Mar 08	Arkansas Customers	CenterPoint Energy, Inc. & pipelines serving CenterPoint	Gas Cost Complaint	Prudence / Cost Recovery
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Representative Project Experience

Since 2001 have served as lead consultant and project manager for two power aggregation groups in Texas, consisting of over 160 Texas cities and political subdivisions. Duties include supply procurement including issuance of RFPs for power supplies and negotiation of power supply agreements for both aggregation groups, provide technical assistance for electric issues, represent clients at ERCOT and the Texas PUC, assist individual members with electric problems, and provide new and innovative approaches for saving members money via innovative procurement and contracting. Developed and implemented one of the first arrangements in Texas deregulated market where customer separately procures power and REP services from two separate providers.

As lead consultant, worked as a technical support person for attorneys and other personnel seeking legislative initiatives at the Texas legislature. Helped in the development of proposed legislation and worked with legislators and staffs to explain and define purpose and benefits of proposed legislation. Attend hearings and committee meetings as necessary, and testify both orally and in written format as appropriate at committee meetings.

As lead consultant, represented numerous utilities in ERCOT and Texas PUC committees and workshops supporting implementation of Texas' deregulation efforts. Was active in numerous stakeholder groups representing municipal utility client interests. Primary emphasis was in settlements and billings, customer registration, reliability must run generators, ancillary services, operations and intra-zonal congestion.

As project manager and lead consultant, assist and provide technical support for energy procurement to a Texas based college.

As project manager and lead consultant, assist and provide technical support for energy procurement to a Texas based hospital.

As lead consultant, performed financial analysis and negotiated provisions of the sale of generation assets by a Texas municipal electric utility and a related multi-year transitional power agreement.

As lead consultant, performed valuations, appraisals, due diligence reviews, and strategic assessments of over \$8 billion of electric, gas, and water utility assets (Various projects and presentations to senior management and Board of Directors).

As lead consultant, provided analysis of gas pipelines, storage fields, supply options, pricing variables, and strategic gas procurement practices for various potential generation sites in Texas and Louisiana for an independent power producer considering multiple siting options for development generation assets.

Provided analysis and testimony on gas procurement issues for customers of a Texas electric utility.

Worked with a major joint action agency in the Midwest U.S. to evaluate a prospective merger proposal with a large public power company.

Developed gas supply price forecasts for a Texas municipal electric utility.

Developed risk management strategies for procurement of gas supplies for generation for a Texas electric cooperative which was experiencing high natural gas procurement costs. Presentation of results to the Board of Directors.

As project manager, assisted municipal electric utility in developing a gas price forecast for use in forecasting the impact of gas fired generation in the cost of energy for the utility. Used industry available forecasts, recent trends in gas prices, and historic purchase data from the City to forecast gas prices for the upcoming fiscal year.

As consultant, assist a major municipal gas utility in Texas with evaluation of responses to and RFP for gas supplies.

As project manager and lead consultant, provide financial review of proposed energy swap arrangement for a Texas municipal electric utility.

As project manager and lead consultant, managed review of proposed streetlight rates for a major Texas transmission and distribution utility and filed testimony supporting adjustments to proposed rates.

As consultant, assist in development of valuation assessment of major Texas transmission and distribution utility for use by client for potential purchase offer.

As lead consultant, developed gas supply cost forecast for both generation and end use load at a major Texas university for near term fiscal years. Results of gas cost forecasting were to be utilized in determining fiscal year budgets, which were to be submitted to the state legislature for approval and funding. Results were submitted to client and used in applicable fiscal year budget requests.

As consultant for a Texas city utility board, developed preliminary valuation of an investor owned gas distribution system used to serve the city to aid in determination of the feasibility of municipalizing the system. Valuation analyses were developed using cost, income, and market comparison approaches. The impact of a recently announced merger agreement between the parent company of the investor owned gas utility and a large investor owned electric utility was factored into the analysis. Performed preliminary research on possible approaches for the city to use if they were to attempt to municipalize the gas system. Identified additional information which would need to be analyzed should the city pursue acquisition of the system as well as ancillary issues which would need to be reviewed and quantified in a detailed valuation analysis. Based on the results of the study, the client decided to further study pursuing an acquisition strategy of the gas utility.

As consultant for a municipal utility in North Texas, reviewed and summarized gas supply and transportation contracts for electric generation to determine fixed contract charges which would be recoverable as stranded costs under the Texas Public Utility Commission's electric deregulation initiatives. Final analysis resulting in identification of a minimal level of stranded cost for each municipal utility.

As lead consultant, developed and issued a gas supplies Request For Proposal (RFP) for a municipal gas system in Louisiana. Included in the scope of work was, developing the RFP, creating a bidders list and issuing the RFP, receiving and valuating responses to determine which party offered the greatest gas cost savings while also insuring reliability of supplies, and presenting the final report to the city utility board. Final contract resulted in significant gas cost savings to the city utility.

As Project Manager, evaluated RFP responses for gas supplies to fuel boilers for a major northeastern New York housing authority. Gas costs, transportation, and gas management issues were all evaluated to determine the most reliable and cost efficient supplies to the end user. Also, alerted end user of major gas issues to consider in awarding the ultimate contract.

As lead consultant, worked with a major Texas university to develop an RFP for gas supplies which provided options for the university to fix the price of gas supplies for a portion of the contract. Evaluated RFP responses, ranked responses and worked with the proposing company on development of a gas supply agreement.

Reviewed *proforma* contract and advised a South Texas municipal electric client in contract negotiation strategies and issues for gas supplies to fuel generation. Major areas of concern in the existing contract were gas pricing, firmness of supplies, incremental facilities costs to serve increased load, and reimbursement for supply interruptions.

As consultant, assisted a major Ohio electric utility in the negotiation of a contract for a gas supply manager to procure and manage gas supplies and necessary transportation to serve a generation plant. Negotiations resulted in substantial savings for the client.

As lead consultant, worked with a large municipal electric utility in Texas for identification of potential public power partners and development of strategic partnering opportunities. Worked with utility staff to review assets of potential partnering candidates and how these assets could be combined with client assets to create synergies which could improve operations and reduce costs. Arranged and facilitated meetings with representatives of potential partners.

As lead consultant, worked with a Texas municipal utility in the forecasting of future power supply costs. Developed hourly load models, forecasted gas prices, and applied these prices to determine the cost of gas fired generation. Combined this analysis with forecasted cost of power from non-gas fired sources to arrive at a forecasted cost of power for the utility.

Represented a transmission dependent municipal utility in Texas during PUC sponsored workshops for the restructuring of ERCOT and development of the ERCOT Independent System Operator. Developed and presented proposal for financing operations of the ISO.

Participated in the analysis, due diligence, and strategic assessments of electric utility assets for sale or disposition. Developed economic analysis related to the sale for the seller and assisted in drafting of associated purchased power agreement.

Honors and Fellowships

John M. Olin Foundation Fellow, 1981

Washington Center for Learning Alternative Graduate Fellow, 1981

PRESENTATIONS

Texas Gas Association, Gas Pricing and Futures, May 1996, Austin, TX

KEMA Energy Conference, 2008

ROBERT J. STEMPER

Mr. Stemper is an expert in pricing, cost analysis, utility modeling, and regulatory matters. He has over 35 years of experience as a regulator and as a consultant to the energy industry. Mr. Stemper has a background in electric and gas utilities and has provided analytical and technical services in development of utility pricing and costing; in the analysis of demand-side management programs; in quantifying accounting adjustments in regulatory proceedings; in conducting competitive assessments; and in evaluating investor-owned, publicly-owned, and member-owned revenue requirements. Mr. Stemper has considerable experience developing and maintaining sophisticated economic models that have been used in contested cases in a number of jurisdictions.

EDUCATION

1979	Conference on Energy and Communications Institute of Public Utilities Williamsburg, Virginia
1979	Symposium on Ratemaking Problems of Regulated Industries Kansas City, Missouri
1976	NARUC Regulatory Studies Program Michigan State University
1974	B.S., Marketing & Distributive Education University of Wisconsin – Stout

PROFESSIONAL HISTORY

2006-	ReSolved Energy Consulting Senior Management Consultant
1984-2006	Management Applications Consulting, Inc. Principal Consultant
1979-1984	Gilbert Commonwealth Senior Management Consultant
1975-1979	Public Utility Commission of Wisconsin Utility Rate Analyst

REPRESENTATIVE PROJECT EXPERIENCE

As a consultant Mr. Stemper's primary emphasis has been microcomputer software development and execution of cost-of-service, rate design and rate case support programs. He has been responsible for the gathering and processing of engineering and accounting data, including system and customer load characteristics, required to complete these analyses.

As a consultant developed computer models for several of the largest investor owned electric utilities in Texas and elsewhere in the United States to calculate the unbundled cost-of-service in response to deregulated markets. Models were custom designed to reflect the structure and individual characteristics of the systems analyzed. Costs were automatically unbundled by classified component, function, and delivery voltage to meet restructuring needs in a competitive environment. Unbundled costs were identified by line item and by account. The models were integrated with other in-house revenue requirement models and database programs and included user-friendly custom menus that provide the ability to modify the program's input, allocation factors, and other basic assumptions.

Responsible for the calculation of complex alternative cost allocation methodologies such as probability of dispatch, probability of peak, proportional responsibility, and capital substitution approaches.

Mr. Stemper has also conducted cost-of-service and rate design studies for electric cooperatives in Texas and New Mexico. In addition he evaluated cooperative power supply contracts analyzing alternative sources of supply and pricing options and conducted sensitivity analyses to determine the impact on utility earnings of the loss of large industrial consumers.

As a consultant to the largest electric cooperative in the country and a Texas public power generation and transmission agency Mr. Stemper developed the transmission cost-of-service (TCOS) models used to identify recoverable transmission costs and calculate access charges. The models calculated both historic and forecasted transmission costs. Mr. Stemper developed complex forecasting methodologies and integrated data from multiple sources into a single user friendly model.

As a consultant Mr. Stemper has calculated the revenue requirement of numerous municipal utilities, conducted cost-of-service studies allocating cost to customer classes and designed rates. These projects included the development of general fund transfer algorithms and overhead cost assignment methodologies. Mr. Stemper has conducted studies forecasting municipal budget revenue and expenses identifying the need for pricing adjustments. In his work with these municipal utilities Mr. Stemper has developed innovative cost and pricing approaches in response to the economic needs of the municipality's large commercial and industrial consumers in a manner that was equitable to all stakeholders.

Mr. Stemper has also developed cost-of-service and rate design models for natural gas transmission and distribution utilities. Mr. Stemper was responsible for the calculation of weather adjusted sales volumes.

Mr. Stemper has performed detailed functional analyses of transmission and distribution systems for classification of facilities to voltage levels. He has also prepared distribution substation studies identifying and quantifying the levels of distribution and transmission investment.

He has developed and presented distribution plant functionalization studies using minimum system and zero intercept methodologies to identify customer and capacity related costs.

Mr. Stemper developed an in-house gas pipeline transportation customer billing model to provide customer service representatives with the ability to provide consumers with an on-the-spot estimate of

anticipated monthly bills when rate changes are put into effect. The model calculated bulk and network transmission charges for historic, current, and forecast periods so that load altering scenarios could be examined.

As a consultant developed models to calculate cash working capital requirements based on an integrated Lead / Lag analysis of expense and revenue components for electric and natural gas utilities. These studies addressed the lead and lag days related to various revenue, purchased power, operating and maintenance expenses, payroll related expenses, pensions and benefits, income taxes, and other taxes to quantify the revenue requirement impact.

Utilizing individual customer billing cycle energy usage data developed complex models of calendar month system 15 minute interval load profiles needed for power procurement analyses.

Provided technical consulting services in the development of demand-side management programs. Defined program objectives and established measures of program evaluation and implementation. Responsible for the development and regulatory filing of comprehensive analysis of supply and demand side energy efficiency activities.

He has assisted a public power agency in analyzing lines-of-business as part of organizational restructuring efforts. This study unbundled the company's investments and cash flow requirements associated with electric generation and transmission services, water & wastewater, land & recreation, environmental, and community development services. The study quantified the revenue requirements of segregated business entities and corporate overhead functions.

Mr. Stemper analyzed the costs and benefits to the transfer of several large commercial customers between electric utility providers. His analyses included the impact on purchased power costs, transmission investments, and margins. Mr. Stemper provided alternative pricing options including revenue neutral and cost based access charges.

Mr. Stemper has developed user manuals and conducted numerous training presentations to educate clients in the use of cost of service and rate related programs.

As a Commission Rate Analyst identified public policy issues, conducted discovery and analysis advocating a public interest position in electric and natural gas distribution rate proceedings.

As a Commission Rate Analyst prepared and analyzed marginal and accounting time differentiated cost-of-service studies. Presented testimony regarding cost-of-service and tariff design. Cross-examined witnesses at hearings and prepared cross-examination for staff counsel. Responded to Commissioners inquiries, prepared orders and audited utility compliance filings.

As a Commission Rate Analyst participated in the conduct of a generic analysis of the economic and environmental impact of alternative electric rate structures.

As a Commission Rate Analyst responded to and resolved public inquiries and complaints